BANK CREDITS

BY D. B. DEWEY.

With Compliments of
Very Sincerely Yours
T. B. Avery

ADDRESS

DELIVERED BY

D. B. DEWEY,

BEFORE THE

BANKERS' ASSOCIATION OF THE STATE OF ILLINOIS, AT SPRINGFIELD, ILL., OCTOBER 15, 1896,

AND

REPEATED BY REQUEST OF THE BANKERS' CLUB OF CHICAGO, AT A MEETING HELD OCTOBER 17, 1896.

BANK CREDITS.

How to successfully make credits is a problem every bank officer in active work grows old trying to satisfactorily solve. There are no infallible methods of determining who shall be entitled to credit, but there are general principles which must govern the making of credits, and the relations between the banker and customer, in order to secure solidity and perpetuity of prosperity.

He who is wisest in the application of these principles to individual cases, he who best understands the law of business, and most clearly interprets this law, will be safest from disaster. It is true that in integrity,. truth, honor and honesty there can be no variations, but the attempt in actual transactions to establish an inflexible rule to govern all conditions in credit making, is to create an obstacle that will be sure at some period to plunge the banker into despair.

The ability to quickly and diplomatically adapt ourselves to conditions as they develop, to read men as an open book, and mold them by superior will and tact, is within the power of some men, and when possessed is a priceless gift. Tact will triumph over genius and is the key that opens the door to success. Tact has been said to be "the child of necessity."

A hesitating man never shines in an emergency; indecision is a fatal disease in all business, especially in banking. Life's pathway is strewn with victims caught in adversity's storm because they paused at important periods to dally with temptation and to question a policy experience has proven to be the only safe one. Brilliant achievements are always the reward of prompt action; moments are often crucial periods in destiny. This rule applies, however, only to principles; action without prudent investigation is equally or more dangerous. The safe banker never decides until all doubts are removed, knowing that peril lurks in every banker's pathway.

The thoughtful man knows that prosperity and adversity are and always have been opposing forces, each has its time to reign. He also

knows that the former invests us with the opportunity to provide against the ravages of the latter. When a banker finds a customer who does not recognize this law, it should be notice to him to beware.

Sunshine will be succeeded by clouds, clouds by storm. In fair weather a wise man provides against the foul, to save himself from the perils of exposure.

CREDIT—ITS BASIS, USES AND ABUSES.

Credit is based on confidence—confidence in the integrity, character and ability of the borrower; confidence in the stability of government, in the possibilities of developing the resources of the country and the probability of success. Confidence is the life of business. Daniel Webster says, "Credit is to money what money is to goods." Again he says, "Credit has done more a thousand times to enrich nations than all the mines of all the world." Demosthenes says, "There are two kinds of property, money and credit; the greatest property is credit."

It is true that credit on a solid basis is a much more important factor in commerce than money, for in the great interchanges in business, money,

in comparison with credit is an insignificant quantity.

Mill says, "Wealth is anything which has purchasing power." Credit is as much wealth as money and far more reaching in its relations and powerful in its functions. Macleod says, "Credit is a circulating medium, exactly as money is." The credit of a solid, prosperous industry becomes a part of its working capital, but safety to a bank requires that the borrowings from the bank be represented by quick assets, which may be made available in an emergency, or in the frequent "clean-ups" which should occur to prove the liquidating qualities of the assets.

Bank credit, wisely used, under prudent restrictions, becomes a blessing to the world; let it be abused and dire calamities follow. The banker who does not by wise discrimination become the sagaciously used instrument by which credit is guarded against its enemies, is a foe to business and generally wrecks his own fortune or the trust he represents.

Too liberal credit and the tendency of borrowers to use it in an unwarranted manner, has always been a destructive obstacle in the way of substantial progress. It has ruined many honest

men by leading them into obligations they could not meet, when if they had been wisely guided by their bankers, they would have won victories rather than have suffered defeats. While money was easily obtained, they unduly extended their business. Periods of depression will come when rapid liquidation is a necessity. Monetary affairs become agitated, capital seeks refuge by withdrawal, and negotiations become practically an impossibility.

Unrestricted liberty to borrow is a curse to both borrower and lender, for it is sure to be followed by inflation and over-production—over-production by a crisis whose disastrous influence is only measured by the extent of the abuse which prevailed when the disaster was generating.

Over-confidence always inaugurates unwarranted hazards, resulting in the financial death of the over-trader or over-producer, whose epitaph might properly read, "Killed by imprudent credit."

The tendency to speculate is the bane of business, and the enemy of banking. A merchant, manufacturer or other seeker after unsecured credit, who speculates, should be discriminated

against by a money lender. I believe if more rigid restrictions were made in the beginning, and more unrelenting exactions enforced in settlements with insolvent debtors, credit would not be so cheap, and, further, that fewer failures would occur.

VALUE—HOW DETERMINED.

Legitimate credit is founded on value, value of money, and value of commodities interchangeable into money. A promise to pay has value, and becomes the equal of money when confidence in the promise is established. A pauper's written promise to pay one hundred thousand dollars would not receive the second glance, but a similar promise of a Rothschild would be eagerly sought after, and be convertible in any money center of the world—proving conclusively that a mere promise to pay without actual property of current value behind it, is worthless.

Money is by no means the only capital on which credit is based. Capital covers all economic elements of value, such as skill, integrity, character and labor. The foundryman buys pig-iron on credit; he adds brains, skill, labor and reputation for probity, and sells the

product. He makes a profit not only on the raw material originally purchased, but on the labor of making and selling. The quality of his product not only depends upon the skill in making, but on the judgment and integrity in buying the material. A deserved reputation for a high grade product, for which there is a demand, insures success in business.

It is generally true in the economics of life that whatever contributes to the alleviation of human want is valuable, and he who has it under unrestricted control, with confidence in his integrity and fairness, has credit. It may then be said that the sum of man's want is the measure of all value. Whatever commodity therefore meets universal want is the nearest to quick realization, because it can at any moment be changed into money. Hence it is that Board of Trade collaterals, duly inspected, properly registered and in the custody of independent and responsible warehousemen, are acceptable to prudent bankers.

The economic law under which quantity determines value, is higher than any statute that can be enacted, hence all legislation must be subservient to this law.

It is true that the law of supply and demand finally fixes the value of all commodities. Demand makes commerce possible. Supply is the child of demand. Without demand there can be no value; profit implies a buyer and a seller. It has been said, "The value of a thing is what it can be sold for." Certain it is that nothing has a commercial value unless somebody wants it.

The shrewd merchant of integrity makes a desirable bank customer and subject of credit, because he studies carefully the wants of the community where he is located, and the territory tributary thereto, and buys to meet the desires of the people as nearly as possible. Intuitively, he finds himself recognizing the fact that education ripens civilization, that civilization creates desires unknown to the uncultured, and that the higher the order of civilization the more æsthetic the wants, and the keener the demand for the products of modern skill. Hence he intelligently adapts his purchases to the special conditions which surround him.

Credit enables the merchant to buy goods and the manufacturer to purchase raw materials to make them into a merchantable commodity, so they will sell at a profit; therefore credit, as well

as money, gives life to labor, which invests all the products of the earth with value. Labor is vital to the prosperity of an individual or nation. A nation of industry and economy becomes a nation of wealth, for wealth is their legitimate fruit. Beecher says "Industry is the parent of thrift." Carlyle says, "Labor is a celestial essence breathed into man by Almighty God."

The influence of honest labor, intelligently directed, never ceases; it accumulates force as interest accumulates power. Labor performed by the buried millions is molding destiny in the present hour. What has been done in the past is an inspiration to us to make improvement and advancement in the present, and to aid us we have the advantage of accumulated intelligence and skill developed through the past ages. What we owe the past, with increased obligations, the future will owe us, if we make an honest use of the energies and abilities given us. The wise man profits by the experience of the past. The man who does not permit the past to become a teacher for the present, need have no hope of the future.

MONEY—ITS RELATION TO CREDIT.

Money, or credit, its equivalent, wisely used, becomes a power in civilization, for it creates opportunities for labor, develops the resources of the country, and lights the way to progress and independence.

It has been said, "Money is simply a commodity employed for bartering, as the ship for carrying, or the plow for farming; it is wealth only in the identical sense that the cart is, for its action is similar to the cart's—it fetches to the owner what he is in want of."

Money enters into credit as a medium of exchange, and measures the value of all commodities. Money that fluctuates soon goes into disgrace, while in its flight to dishonor it paralyzes credit and crucifies progress. Debased money becomes a pernicious influence in business, is born in ignorance or infamy, is a blighting curse, an emissary of Satan, bearing weapons of destruction to all industrial interests—is a viper that will sting prosperity and independence to death.

An inexorable and irrevocable law governs the nation as well as the individual. A nation can

no more be dishonest and be respected than an individual.

It has been said, "Financial probity is the backbone of a nation." A nation that sacrifices its honor by repudiation of its honest obligations, in whole or in part, will pass into history under a stigma that centuries of honorable record cannot remove. The greatest monetary disasters known in history were inaugurated by the attempt to create value in money where none existed.

Money, not based on something of intrinsic value of recognized standard to redeem it, should be prohibited from circulation as you would prohibit counterfeiting. Let the foundation on which money rests be honest, the standard true, and all operations growing out of same will be satisfactory.

Evidences of indebtedness, passing as money, must be based on unquestioned security, convertible into an established metal standard which the whole world recognizes as such, in order to give stability to currency and safety to business. No substitute can be safely offered for money not worth just what it purports to be. A government has no moral right to impose upon its

subjects by stamping anything as a dollar worth only half, or worth any less sum than it stands for. It has no right to discriminate against the product of one State, which happens to be corn, wheat or potatoes, in favor of the product of another State, which happens to be metal—because the owners of the latter are clamoring for unlimited purchase at a fictitious price. It has no right to tax the whole people for the benefit of a single industry, at the expense of all other industries.

It is an absurdity to say that a government has the power to fix the value of money; it may arbitrarily compel its acceptance in payment of debts within the jurisdiction of the power issuing it, but beyond that jurisdiction it is worth only its actual value, and reflects credit or discredit just in proportion as it is measured by the standard recognized as such by all nations.

When money, without reference to its true value, is plentiful, prosperity may apparently abound, and demagogues may applaud its superficial evidences, but as a matter of fact the financial atmosphere will be charged with peril, and the prudent, observing the signal of danger, will hoard gold in order to have something of certain

purchasing power when the crash comes. Collaterals may be abundant, but money, like a frightened deer, has sought safety in hiding, thus impoverishing the ability of banks to meet the necessities of business. Yet the public, overlooking the true cause of restricted lines, unkindly criticises the banks, charging illiberality and unfair treatment, while the fact is the depositors are in fault, not the banks.

Unsound money inflates values, incites extravagance, promotes wild schemes, is a curse because it produces false conditions, destroys stability in business and ends in disaster. The greatest sufferer is the laborer whose fortune as a rule consists chiefly of his daily earnings.

Debased money impoverishes and ruins the wage earner; "An honest dollar for an honest day's work," should be his war-cry. His skill, integrity and energy are made available only when supplemented by the opportunity for work which capital alone can give. The interests of capital and labor are identical; each has rights which must be respected and protected upon an equitable basis, or there can be no permanent success. You destroy one and you ruin the other—you protect one and you save the other;

any intelligent man, who honestly desires to promote the interests of either, will frankly say so.

Sound "money is a form of capital which stimulates and facilitates all the processes of business," and largely divests credit of its peril. Restore confidence, and new life will be given to all industries, and the onward march to triumphant success will be assured.

Scarcity of money in circulation does not prove diminution in the quantity in existence, but the loss of confidence to use it, and that does the mischief in credit and damage to business. It is then that the quality of money is determined, proving the statement often made that "inferior money always drives out superior."

We all know that gold is hoarded and drops out of circulation when confidence flees and panics threaten. Gold is something everybody wants, because of the universal faith in its value. The most prudent investors in all countries demand that the securities they invest in shall be made payable in gold, not for the purpose of discriminating against any other form of money, but because gold holds commercial supremacy everywhere; is as current in the most remote and

humble village in the world as in the most important money center. This is not true of any other form of money.

Is it not a fact that purchases and sales of commodities, whether for cash or credit, in spite of legislation, are made on a gold basis? A merchant of one country selling to a merchant of another country, making silver a standard, will surely require his bills to be paid in gold, or sell the goods at such a profit as to provide against the fluctuating value of any other form of money.

CREDIT—FOUNDATION—NECESSITY.

Under the most advantageous conditions of money and credit, exhaustive duties and supreme anxieties are the inevitable inheritance of a bank officer, where fidelity, patience and a true conception of the magnitude and sacredness of his trust qualify him for his position. The banker, wise in his own conceit, who superciliously assumes superiority and infallibility, demonstrates his ignorance and weakness. Energetic ignorance is often more dangerous than criminal intent; the latter may be controlled and intelligently feared—the former, never.

Credit is the foundation of banking, and the banker in making his credits has always been, and ever will be, the legitimate prey of inflationists, swindlers and thieves in general, who use every kind of ingenuity and cunning skill to secure his confidence and get his money—so that peril shadows his pathway at every step. An experienced banker will tell you at times the pressure is terrific, and the responsibilities almost overwhelming.

Mutual confidence is the foundation of all successful enterprises. It is well understood that no bank can pay its debts on demand, but that time is required to make available the most solvent securities. If a bank were obliged to keep itself in position to pay it creditors on demand, there would be no profit in banking.

Walker says, "If a man borrows a thousand ducats and ties them up in a bag, he will not find any little ducats at the end of the year, but if he purchases a flock of sheep, he will, with proper attention, have lambs enough at the end of the year to pay a handsome interest on the loan and have a splendid profit for himself."

Credit is a necessity in banking. Risk will be in proportion to gain; nothing offers profit that

does not present a corresponding risk. A credit which a merchant may make with propriety, a banker cannot seriously consider. While the same general principles must control, the percentage of profit in one case warrants the risk, and in the other case it does not. For an unwarranted hazard there can be no satisfactory compensation.

It is the legitimate desire of every banker to increase the business of his bank; how to do this safely is the problem of his life, in the solution of which he will inevitably make mistakes, and largely increase his stock of regrets. To lament will be unavailing; charging to "Experience Account" does not make satisfactory explanations or dividends. Stockholders quickly forget a bank officer's triumphs, but never his mistakes.

TOO MUCH MONEY DANGEROUS.

It is true that at certain periods money will accumulate rapidly. An ambitious bank officer, desiring to make attractive dividends, is liable to be led into the inauguration of a system dangerous in its character and sometimes fatal in its consequences. Over-anxiety to lend money is

perilous; it divests judgment of its prudence and scrutinizing power, makes the banker over-credulous and liable to inflate securities with fictitious value. The universal experience of bankers will justify the statement that the greatest mistakes are made, and the most disastrous losses incurred through loans taken on when there is a plethora of money. Under the influence of a stringency, greater care and closer scrutiny are exercised; borrowers seek the banker, not the banker the borrowers. It is then a banker can get the cream and let the skim-milk go to the lender where usury is not considered.

WHOM SHALL I TRUST?

A banker has a great variety of borrowers to deal with. He should, as far as possible, make it his duty to know each man's peculiarities and business methods. In some he will find frankness personified; they will open their hearts and give their confidence, so that their banker is placed in possession of all the facts connected with their business. Others apparently will be equally frank, but, as a matter of fact, will conceal vital points, so that a correct judgment of their affairs

is an impossibility. Others will inflate their statements, and by rosy pictures, mislead; the latter may be honest in their intentions, but they lack discriminating judgment, and often deceive themselves. Others will willfully misrepresent their condition with such plausibility and cunning as to deceive the wisest, so that the question that comes home to every banker, "Whom shall I trust?" is forever pertinent. It will also ever remain a perplexing proposition to know to what extent credit can be given with safety, what methods shall be used to determine the solvency of a borrower and the value of the collaterals. In making credit it has been my habit to ask myself:

1st. Is the applicant for credit honest? Is he truthful? Can his statements be relied upon?

2nd. What do his assets consist of? Are they staple and in healthy demand a reasonable part of every year? There are certain classes of goods or products that are short-lived in their use; they may sell quickly to-day and in the near future be unsalable at any price. Any commodity dependent upon current conditions may have a brief period of life, and after that become practically worthless.

Again, what are the borrower's estimates of value? Are his assets quick or are they slow? What would they be worth in liquidation under pressure? Has he sufficient capital, with what the bank will lend him, to successfully conduct his business?

3rd. If the proposed borrower is doing a general business, is it so distributed as not to be dependent upon one locality, where a failure of crops, disaster by fire or any other calamity would cause embarrassment?

4th. Has he a practical knowledge of his business, and does it warrant success? Is he making money? A losing business should always be avoided by the lender of money, even if the assets are sufficient when the loan is made. To continue to produce at a loss makes ultimate bankruptcy certain. The date of bankruptcy depends only on the size of the bank account or the amount of available assets in the beginning. The same line of business may at one time be profitable and at another time unprofitable, so that the closest touch with and clearest conception of prevailing conditions of trade become vitally important to the banker.

5th. Does the borrower confine himself to his

legitimate business and keep out of speculation? If his business involves credit to other people, is he prudent in his methods of making such credit, and wise in his judgment of character? Is he dependent upon sources outside of his regular business for his success or failure, or so identified with other interests as to be imperilled? The collapse of a large concern often carries many others with it. Hence the importance of knowing all the business relations of the borrower.

6th. If a manufacturer, has he sufficient bills and accounts receivable, or other quick assets, to pay his liabilities? Experience has proven conclusively to every money lender that machinery and plants make poor assets to pay debts with; especially is this true if the owner meets with misfortune. Methods pursued by manufacturers in charging off or failing to charge off each year an equitable percentage for depreciation in machinery and plant, is a true index to their prudence or lack of it. Location of plant is also a vital question. What is the power used? If water, is it in regular supply, or a fluctuating quantity, demanding a large expenditure of money to keep it in operation? Is there an abundance of raw materials used in manufac-

turing the products, tributary and accessible, or is the supply limited? Location and the conditions referred to might determine the permanency of an industry and solve the safety of a credit.

7th. Is the customer borrowing money to increase his lending facilities? A banker or broker who becomes a borrower of money to lend again, should always be willing, and be required to pledge as collateral for his borrowings, with satisfactory margin, the securities which he buys or lends upon. This rule should be absolute, without reference to the financial strength or high credit of the borrower, for it is a safeguard against undue expansion. The ability to borrow money at a low rate to lend at a higher rate creates a temptation pregnant with danger, hence safety to both borrower and lender demands that the most conservative judgment and prudent methods should obtain.

8th. What kind of an account does the customer keep? An important feature in determining the amount of credit to be extended, other conditions being right, is the bank balance which a customer carries, or shall be required to carry. The percentage demanded varies largely with banks, so that no universal rule has been

adopted. Certain it is that a healthy balance should be carried; it is wiser for the customer, as well as equitable to the bank. An average balance, not less than a sum equal to the reserve, which a bank must by law carry against a customer's deposit, should work no hardship to bank or customer, and its results would be more satisfactory to both. The customer should never lose sight of the fact that whether a shareholder or not, he is vitally interested in the character and prosperity of his bank, and that when he makes unreasonable demands upon his banker, he commits a wrong upon himself. The selection of a conservative and wisely managed bank reflects credit upon the judgment and standing of the customer.

9th. Is the applicant for credit an officer of a correspondent bank? I do not approve of the habit indulged by some bank officers—i. e., asking their correspondents in money centers for loans, offering as collateral security the stock of their bank and basing their claims for consideration upon the value of their bank's account. The policy is bad for several reasons, but principally because they demand a privilege which (except as to kind of collateral) legitimately belongs to their

bank only, and may be needed to protect their bank in special cases where borrowing may be good policy, or emergencies where it may be a necessity. To secure these personal loans, bank officers often make unwarranted concessions, thus belittling the profit which is the natural inheritance of their bank, and then they deprive their bank of the independent position which commands the highest respect of conservative men whose influence is of value because it establishes confidence and brings good business.

One prominent bank officer said to me that he never accepts a borrowing account without asking who the legal counsel of the borrower is. I think the suggestion a good one. Certain it is that a wise, discreet, honorable lawyer is of priceless value to business interests—he who holds commercial honor and public weal above personal gain. There are pirates in the legal as well as quacks in the medical and frauds in the banking profession. Wherever you find either you are sure to find a malignant foe to the true interests of humanity. This statement only emphasizes the value of an able, conscientious follower of either calling.

Again, if the proposed borrower is a corpora-

tion, the banker should be sure that the men in active management have large personal interests at stake—with only a salary at risk the bankruptcy of the industry is not so alarming to the officers. I believe a rule requiring directors of a corporation to personally guarantee its borrowings from its bank to be an important element of safety. Directors can always protect themselves by protecting the bank. No motive has greater power than that which prompts self-protection.

There are many other questions which may be legitimately asked, but if able to answer the foregoing satisfactorily, a reasonably safe foundation for credit is established.

METHODS AND SOURCES OF INFORMATION.

There is a variety of sources for getting at the facts as to a customer's standing, all of which a prudent banker will use, but in his final judgment he must rely upon his confidence in the integrity, fidelity and business ability of the customer. Personal contact with the borrower, familiarity with his habits, methods and characteristics, are invaluable aids in determining whom to trust. Only education, long experience and patient thought can bring the wisdom necessary

for a solid foundation on which to determine credit, and even then errors of judgment will creep in.

It will be helpful, in avoiding complications, for a banker never to lose sight of the fact that one careless action, one single mistake, where transactions are large, or relatively large, will swallow up a whole year's profits, accumulated by his previous prudence, faithful study and skilled discrimination; hence prudent and critical investigation should be made, and careful consideration given, before decision is reached. When this is done and wisest judgment used, self-reproach is unwarranted.

A successful banker believes in men. Inspire a man with the belief that another trusts him implicitly, and his manhood will be exalted, his trustworthiness will be largely increased and intensified. The power to make men believe that you trust them, and thus forcibly appeal to their higher nature, is a quality nowhere more valuable than in a banker. Such a banker will also be fair to his customers; he will never sacrifice where he can save. He should be a genuine man who despises pretense. His education unavoidably gives him an intense hatred

for shams. He will strive to make himself a recognized standard of honor and fairness, for his important trusteeship makes him a vital part of the civilization under which he lives. He will also ever remember that misfortunes are liable to overtake any customer, and if wise, he will judiciously distribute his risks, keep himself in touch with his customers, show an active, kindly interest in their success; have them implicitly believe that the bank is not only a safe depository for their money, but its officers for their business secrets, and so treat his customers in his intercourse with them that they will not leave him because his competitor offers what may seem more attractive inducements; and so that in financial trouble he will be the first one consulted and his bank protected. This result can only be secured through uniform courtesy, fair treatment and fidelity to all confidences bestowed.

DIRECTORS—THEIR DUTIES.

A common error with bank officers is the neglect to make available the influence and knowledge of the directors of the bank. Every director, in accepting his position, assumes a responsibility for which he should be held strict-

ly accountable. Should trouble come to the bank, the plea of ignorance of the bank's affairs should in no way mitigate the charge of infidelity to his trust. A bank officer should give his full confidence to the directors, who are co-trustees with him, and in just reciprocity they should give him their unqualified confidence and co-operation, and to the bank their best efforts in protecting the business in hand, and in the getting of new business. The reputation, character, safety and prosperity of the bank should be as vitally important to them as their own, because in accepting the trusteeship, they have assumed a sacred duty, and their reputation becomes at once involved.

COMMERCIAL AGENCIES.

It is wisdom for a banker in forming judgment of a credit to avail himself of the reports of the reputable commercial agencies, who have unequalled facilities for getting information, and who make it their business to learn the histories of men, what their records have been as to integrity, promptness and success.

A valuable aid in making credits would be a central Bureau of Information, accessible to all

bankers who desire to make it so. To be able to use paper at will is a practice pregnant with danger. If borrowers knew that all their paper given was reported to the Central source referred to, it might make a very material difference in their operations, and result in greater safety to lenders.

WHAT TO AVOID.

Bankers should learn to avoid a great weakness, common and dangerous, which is the lack of courage to charge off a loss when tempted to risk more money, hoping to thereby ultimately save the bank harmless. The most serious disasters have come to a bank when, under the appalling influence of a large loss, additional money has been contributed with the hope of final escape. Where a strong competition exists, an over-anxiety to keep customers will also exist and will prove a menace to safety. Bitter rivalry is thereby created and judgment is divested of its prudence and sagacity. Under its influence inducements that are unwarranted are often offered. A day of reckoning will surely come. Then the prudent stand and the reckless fall.

As a rule, the wealth of men is overestimated; profits are magnified and losses belittled. The wise credit man largely discounts the public estimates of the wealth of business men. Industries that have had a high credit and have been unhesitatingly trusted, will suddenly fail and the exposé becomes an awful shock to confidence; the lender will find that through the lack of proper investigation he has unconsciously contributed to the borrower's ruin, who in turn by his failure has ruined other customers of the bank.

An insight into a conservative, sagacious banker's credit case might make revelations to some people posing as models of honor and possessors of wealth that would astonish them. Rest assured they are not always attractive pictures, and in some cases they might be quite as astonishing to the community, as will be the secrets of life, when the veil is lifted on Judgment day.

ANALYSIS OF ACCOUNTS.

I think any successful banker will say that a careful analysis of a customer's account gives to him an index uniformly reliable in its correct-

ness. Men unfamiliar with bank records little dream of the graphic histories they disclose. One customer will always have a solid cash balance, his account needs no watching, his banker thinks of him only with pleasure. Another will pinch his account and make his bank a convenience only. Some balances will be made up of checks on other banks, in or out of the city, taken legitimately perhaps in the routine of business, but nevertheless the receiving bank actually never has any money in hand from these accounts; each day's drawings will absorb the previous day's deposits. And so it will go on indefinitely.

There are customers who consider their accounts so valuable to their bank that in addition to depositing their country checks (which may take from one to ten days upon which to get returns) they will want these checks collected without charge, which results in the city bank paying for the privilege of doing such customers' business, and is wrong in principle. As a matter of fact, there should be some profit on every transaction a bank makes, especially on exchange and collection. Through competition unwarranted concessions are made

so that important elements of profit are eliminated from banking. The acceptance by the city merchant of the country merchant's check on his local bank is bad practice and ought to be discouraged by metropolitan bankers. It is true that some country merchants calculate the days it will take for their check or checks to reach their local banker and make provision only in time to cover, thus depriving the country banker of the interest to which he is legitimately entitled, while it works both an injury upon and an inconvenience to the city banker.

Another customer may subject his bank to great annoyance by persistently over-drawing his account. If he is charged with interest, he will vigorously protest, forgetting that interest is the life of the bank, that interest never sleeps and has no respect for holidays or Sundays, but keeps ticking away as the pulse keeps beating.

Another customer, and the one to be most dreaded, is the habitual "kiter" or "shinner." This customer will find another man of like tastes and needs with whom he will swop checks, sometimes for like amounts, but usually he imagines more shrewdly for unlike amounts, flattering himself that he has fooled his banker,—

sad delusion! The Clearing House lifts the veil and this customer stands out in his true light. When suspicions are aroused by such evidences, the banker will send out this customer's check, deposited after Clearings, to be certified; usually it will come back with the familiar stamp "No Funds." If the depositor can raise the money or some other obliging man's check, provision will be made during the next day and so on until he has exhausted the patience of his banker, and has been forced to withdraw his account,—when he will seek some other bank to impose upon in like manner.

Another customer will run a large balance for a time for the purpose of establishing credit, proposing to himself in the beginning when confidence is won to make his bank a victim. In due time he will have unexpected demands and want temporary accommodation; when his banker demands security he will become incensed and threaten to change his account. He will probably be surprised to find that that is just what his banker wants him to do, for he has already become satisfied of the ulterior purpose of this customer and his kind.

LOANS—CHARACTER AND DESIRABILITY.

It is true that the ablest bankers disagree as to the kind and character of business most desirable. One banker will say, "Give me loans on collaterals only; I want quoted and quick-selling securities with such margins as will make them available in emergencies." In order to do this, a lower rate of interest must be accepted, and the habitual lender on collateral is entirely willing to make the necessary concession for the absence of anxiety and the peace of mind which follow.

Another banker will say, "Judiciously selected commercial accounts are most attractive." To the lender on collaterals these unsecured credits would be a source of anxiety, if not torment. While a fair proportion of each kind of loans may be desirable, I believe, on the whole, experience teaches that the grandest successes have been attained by commercial bankers who were wise enough to properly select the paper made by solvent merchants and manufacturers, who are willing and can afford to pay a higher rate than cash collateral borrowers.

Commercial credits are based on the integrity

of the borrower, the prosperity of his business, the merchandise or products, the bills receivable and accounts receivable shown by his books, and in his possession, representing tangible value held in trust for his creditors, and fully justifying the bank credit asked for.

A banker cannot confine himself to millionaires; the small merchant and manufacturer must be accommodated with banking facilities, as well as the merchant prince; and these borrowers are just as safe for the amounts loaned —perhaps safer than those possessing larger means with larger wants.

It may be accepted as true that the bank which has the largest number of small borrowers who are prosperous is in the best possible position to earn dividends. Better rates of interest are obtained on small amounts, larger profits on exchange, better average balances in proportion to the amount loaned, and the liability to large losses, even in the aggregate, is much lessened.

Among the most desirable loans for a bank to make is where one merchant or manufacturer sells goods to another merchant or manufacturer, or a producer of materials to a consumer of the

same, taking paper therefor, each being in good credit, with the responsibilities entirely independent. Here actual value has passed, and the endorsement by the payee, and its use with his banker, make of it at once productive capital, which facilitates and vitalizes commerce. Sometimes goods may legitimately be purchased by each customer of the other. Where this is done, it is well to know that in the interchange paper is given for only differences in settlement, instead of, as is often the case, having the paper represent the whole purchase each way.

WAREHOUSE RECEIPTS.

A class of borrowers will present themselves for loans, offering as collateral security their own warehouse receipts, for property they propose to hold in trust for the account of the lender. I have made it a rule during my banking experience never to loan on warehouse receipts issued by the borrower, unless I was willing to loan him the amount asked for independent of such receipts. The enforcement of the rule in one notable case saved the bank of which I was president over $100,000.00; other banks loaning

the same customer on his own warehouse receipts lost more than the sum named. I believe the principle of loaning on warehouse receipts (so-called) issued by the borrower on property under his control to be radically wrong. It encourages a system which develops inflation, contributes to the power and opportunity of dishonest motives, and saps the foundation of the true principle of lending on collaterals.

CHRONIC BORROWERS.

Again, all banks recognize a class known as "chronic borrowers," or so-called "luggers," who are to be avoided by money lenders as vigorously as a city would avoid a pestilence; they may be estimated to be wealthy men or corporations, but as a matter of fact their methods and true condition make them unworthy of bank credit at all. They may not be actually insolvent, but they are treading on dangerous ground and should be shunned by the prudent banker as he would shun an impostor.

WRITTEN STATEMENTS IMPORTANT.

The system adopted by many banks requiring a customer, desiring to borrow money, to make

over his own signature a written statement showing his financial condition, is a wise one. A banker who views such statement in the light of what the borrower would realize if retiring from business, under adverse circumstances, will not over-estimate the present or future value of the assets shown.

The creation, by the several States, of a uniform law and severe penalty for making a false statement to obtain credit, and the vigorous enforcement of the penalty, would show salutary results. Concerted action on the part of creditors in securing the punishment of fraudulent debtors, would give great force and effectiveness to such a law. The man who willfully lies to get credit is as much a thief and more dangerous than the man who steals a pocket-book. The former may be aided by respectability and a good past record; the latter, people are on the lookout for, and opportunities are limited. Prosecute and punish the maker of false statements as a criminal, and the credit atmosphere will be purified, and the liability to unworthily bestow confidence greatly lessened.

The ability to analyze a trial balance or statement may be, in part, a gift, but experience is the

only safe guide. The cultured eye intuitively takes in the quick assets, unconsciously the mind deducts the liabilities and strikes a balance without any actual computation being made. While this statement is true, it does not lessen the importance of prudent investigation and a critical examination before a decision is reached.

It is also true that solvent borrowers delight in searching scrutiny. The refusal to disclose actual financial condition to a creditor, who has a right to know, is acknowledged weakness, or pitiable stupidity. Together the banker and borrower can digest a statement made and determine its strength or weakness, which can only be a satisfaction and source of great help to the proposed borrower entitled to credit.

INFORMATION WANTED.

A banker will want to know how inventories are taken; whether the product is put in at original cost, or its market value. He will also want to know the liquidating character of the assets; whether all worthless and doubtful debts have been charged off; what the responsibility of the customer is outside of his business invest-

ment; also whether the customer ever signs security bonds to accommodate friends holding positions of trust, where possibilities are always dangerous. With the existence of good Surety Companies, prepared to furnish bonds as a business transaction, no reasonable excuse exists for appealing to friends to help in this direction. It embarrasses a friend having intimate social relations to refuse, yet a prudent man, especially a borrower of money, feels that he must do so, for there are contingencies beyond a friend's honesty to be considered.

ACCOMMODATION PAPER.

The banker will want to know further whether the customer ever makes accommodation paper or accommodation endorsements. It is wise to avoid accommodation paper or accommodation endorsements, for they are undesirable from the fact that the maker or endorser gets no value, and if obliged to pay, he will become bitter in his denunciation of the lender—while, when the debt was contracted, he voluntarily perpetrated the folly now so fruitful of regret, never expecting to be called upon to pay.

Accommodation paper is the "plague spot of commerce," and the stimulator of panics, because capable of unlimited extension. It finally lands both borrower and lender in the whirlpool of disaster. I do not mean single name paper, where the maker gets value, but where he loans his credit without value. Fortunately, accommodation paper has ear marks that the skilled eye usually detects, which to a certain extent become a safeguard to the lender.

CHANGE IN CIRCUMSTANCES.

The liability to change, in circumstances and conditions of customers, requires eternal vigilance on the part of the banker; hence he must always be on the alert. A man whose record has been good as to integrity and success may, if disposed, through the various avenues at his command, work disaster and ruin. It is often true that a man, blinded by the perils developed in adversity, does not hesitate to use methods that create for him undying regret, and that frightfully wound confidence in humanity, thus crippling the ability of others to borrow for legitimate needs. By adroit manipulation he conceals his

true situation, and under pressure he determines to get money even at the expense of his honor. He is liable to succeed in doing so for a time; he will unblushingly make false statements as to his responsibility, as to the volume of his business and the character of paper made by others which he offers for discount. He will solemnly declare that he is using only business paper, where value has passed to the maker, while as a matter of fact it is purely accommodation or fictitious paper, representing no value whatever. He who maliciously deceives will inevitably learn that it is an awful fate to become the slave of an evil memory.

Character is never known until it has been tested by some ordeal that shakes the very foundation of life. Beecher says, "Adversity is the mint in which God stamps upon us his image and superscription." Deep down in the hearts of true men lie the germs of heroism; emergencies develop them. In other hearts evil lurks and temptation shows its power. We are surprised to find that the man we believed to be the soul of honor and integrity has proven himself to be an arrant coward and swindler. Such cases will come into the experience of almost every

banker, and the most wary will be deceived and entrapped.

A banker will find men of high social position [and great wealth of good intentions], but without practical experience in business or bankable assets, who will have accounts with his bank, and they will be sure to want to borrow money. They may have rich wives, who do not endorse their husband's notes, yet give them luxuriant surroundings and influential connections that indicate wealth. They are very liable to have elegant bearing, and fine persuasive powers, which make the refusal of credit a painful operation to a bank officer, but it must be done, or he will tie up money in a *permanent* investment which may cost him his position.

FORETHOUGHT NEEDED.

Wise forethought is a virtue whose value cannot be over-estimated. A banker must forever bear in mind that monetary conditions rapidly change, that confidence will be suddenly depleted, that deposits will melt away like dew before the morning sun, and various other contingencies arise, so that absolute contracts as to

future transactions in banking are not consistent with prudence.

In the panic of 1884, I heard a prominent banker, where a line of credit had been previously agreed upon, and the customer protested at being denied that line, say—"All trades are off in a panic." I know the customer then thought the restriction unwarranted and unjust, but not long ago I heard him say, "The banker was justified in his position and acted wisely."

It is true that when deposits, under the influence of fear or depressed monetary conditions, are being depleted and resources limited, the prudent banker must make every borrowing customer bear at least his proportion of the shrinkage. By so doing he aids the customer in getting himself in condition to be safe in the pending emergency, and at the same time, is protecting the bank against disaster to itself, thereby promoting the interests of every depositor and public confidence as well.

We this year have some striking illustrations of the practicability of this principle before us. (I trust now behind us.) Not since the demoniac yell, born in the hot-bed of lunacy, known as the Chicago Convention of 1896, has any

metropolitan banker found a bed of roses on which to sleep and dream of the Elysian bower, where silver cranks are unknown. Anxieties have made days crucibles of sorrow, and nights hideous with the possibilities of the morrow. Solvent industries have been imperilled. Some men have proven themselves craven-hearted cowards by sacrificing their credit and assets, when, had they given their bankers their confidence, they might have lived and protected themselves and the community from a shock not easy to recover from. When it is too late, they realize their imbecility and cowardice. The sacrifice has been made, however, and they can never recover the position they heretofore held in the esteem and confidence of the public.

During such crucial periods every conscientious banker will keenly feel the responsibility of passing upon a man's credit, which may determine his destiny. It is a grief to be compelled to refuse credit to one whose past achievements have given him high standing. He may be a warm personal friend. The banker may have been startled by the discovery that this friend is slowly going down the current, and knows that he is sure to finally rush over the rapids to disaster and ruin.

A man thus struggling never realizes his true condition and the inevitable result. If courageous and honorable he will, with tenacity and valor, fiercely battle to sustain his reputation, shield his pride and protect his assets against the depreciation caused by forced or acknowledged insolvency. He believes himself to be entitled to the credit he asks for, feeling sure, if the credit were granted his difficulties would be overcome. He recognizes, however, that the refusal of his banker to grant further credit means defeat, for he has nowhere else to go. Heretofore this man may have been eagerly sought after by money lenders, and perhaps given such liberal credit as to produce the very danger which now threatens him. Money was so easy to obtain he extended his business, and thereby sharpened the weapons which are now cutting his throat.

There is a sympathetic touch among bankers and money lenders which conveys the news of over-borrowing; an almost imperceptible voice that whispers the tidings, and the borrower who was heretofore freely solicited, now meets refusal on every hand—not harsh, but kind—the lender desiring to wound the pride of the borrower, whom he respects, as little as possible.

This man, now threatened with ruin, by the relentless conditions prevailing, may have been a striking character in the community; benevolent in his charity, beloved for his manly qualities, patriotic in his citizenship, generous in his friendships, and supremely loyal to his convictions. His resources, to outsiders, may have seemed practically inexhaustible, and his triumphant march irresistible. He is a proud spirited man, conscious of his own integrity. It is possible that conditions over which he had little or no control may have been created that sapped the foundation of his prosperity, and sent him toward financial ruin with resistless rapidity. Every moment he is treading over a yawning gulf in which may soon be buried his fond hopes, and his fatally wounded pride be left to writhe in agony.

Of necessity business is cold in its realities; cannot be otherwise; a banker must divest all his transactions of favoritism, personal friendship and all prejudices created by them, or his trust is in danger. When a banker's sympathies control him in estimating and deciding a credit, his judgment is weakened, if not destroyed.

The aforesaid applicant for credit, who must

now be denied, may have shared with this bank officer social festivities and home joys; their families may have been intimate, and tender associations formed. The appeal for aid in his distress comes with seductive power, but fidelity to his trust compels the banker to refuse the credit asked for. It may be his first refusal to this proud spirited man and his beloved friend, hence fear that his judgment may be at fault haunts him. Experience has taught the banker that the existing conditions can only terminate in financial death,—he must refuse. When the unfortunate debtor becomes conscious of his fate, his soul is the victim of despair; he charges his banker friend with cold-hearted cruelty,—when it is simply loyalty to a sacred trust and obedience to duty. Gladly would this friend help him if he could do so with safety to the interests he represents, but he knows help would only prolong the struggle and result in an outrage upon his bank.

I am not now referring to the banker whose so-called conservatism is only commercial imbecility and cowardice, who in unwarranted alarm runs when the first shot is fired, and injudiciously refuses credit, which, wisely extended, would save

the debtor and spare the shock to the business world. Such a banker is an enemy to business interests, and unworthy of the position he holds. Commercial disturbances will occur, peril will abound; under the influence of a panic, chaos rules, a financial volcano will appear and bury hopes in the grave of despair. Prudence does not imply timidity; courage does not imply rashness; refusal does not imply wisdom. A banker must be wise enough to supply, so far as his ability will permit, the legitimate needs of worthy customers; sagacious enough to discriminate against a hopeless case in favor of one whom timely aid will save from failure; courageous enough to refuse all appeals for help, when help would only prejudice his bank, and be unavailing in saving the customer.

The bank officer is only a trustee, his trust is sacred; loyalty to his trust should make him forget his prejudices and his friendships when weighing the rights and interests of his bank. To know just how far to go with safety is the wisdom every honest banker seeks.

BANKER'S ATTITUDE IMPORTANT.

In hours of financial peril the attitude of a banker may inspire confidence or create fear.

Nervousness is catching, especially where the public is already excited. Intrepid nerve and mental poise are essential qualities in all departments of life, but especially so in a banker, who, in monetary affairs, should be a leader; on his part a calm, self-contained, dignified manner will ever be reassuring. A wise banker in the community becomes a mainspring, a balance wheel, representing courage, good sense, steady energy, and moral independence, whose influence works like magic in restoring and sustaining confidence.

SPECULATION SHOULD BE DISCOURAGED.

It is the unqualified duty of bankers to refuse money to speculators, especially in money stringencies, no matter what security they offer. Their purpose is to profit from the dire necessities of the panic-stricken, and build their own fortunes on the ruins of the fortunes of others, towards whose destruction they have contributed. The bank or banker who encourages unwarranted speculation, by lending money to market manipulators, commits a crime which should drive him from the recognition of the legitimate members of his profession. For instance, aiding

the officers of a corporation in using its surplus funds to buy the corporation's own stock on margins, for speculative purposes, if at all. The unprincipled speculator cares nothing for public weal; men and principles are unhesitatingly sacrificed. I refer now to manipulators of markets who instigate and circulate false reports, who impeach confidence, precipitate panics, who on the slightest provocation predict gold famines, offer premiums on gold options, exaggerate the depleted condition of the Government Treasury and its effect upon business, all to stampede the timid; speculators who borrow money in large or small blocks, withdraw it from circulation, where it is needed for legitimate business, and lock it up in vaults and create stringencies, thereby demoralizing trade and ruining fortunes, while on the ruins these selfish fiends build up competencies and laugh at the miseries of their victims. These cowardly vultures, to serve their own purposes, will maliciously attack the good credit and good faith of any individual or bank. They possess all the instincts of the highwayman or midnight assassin, without the physical courage to perform the latter's work.

This is in no way intended to reflect upon the

honorable Board of Trade operator or Stock Exchange broker who, relying upon facts, make a convenient market for the products of the country and the solvent securities of the world.

No banker who speculates is ever a safe custodian of trust funds; his judgment is divested of its efficiency, his attention diverted from and his anxiety unfits him for business. Under the crucifying pressure no man can be effective. Many a banker has commenced speculating with his own money in a small way, never dreaming in the beginning that he would make use of his bank's funds. When private resources became exhausted, resort was made to the bank's money and the death trap was set; the temptation became irresistible, the banker made a bankruptcy of his own existence and an inheritance of withering sorrow.

A bank and its credit must never be used for personal ends. I believe that an executive officer, in active management, should never borrow money of his bank, but should keep himself in a clean and independent position, where his judgment is uninfluenced by any interest other than the bank's highest good. History clearly proves that, as a rule, bank failures find their

origin in the attempt of officers to use their bank for private purposes.

Look out for the bank organized so that its promoters may increase their borrowing facilities; it is always a menace to safety and public interests, and becomes a putrid ulcer on business life.

CONCLUSION.

In conclusion allow me to say that an honest, able banker can become a powerful factor in the equitable adjustment of the relations between capital and labor. The success of his bank depends upon the prosperity of the industrial interests of the country, and as there can be no solidity and perpetuity of prosperity except upon a just recognition of the rights of both capital and labor, independent of the moral sentiment that compels fair-minded men to fight injustice and oppression, it becomes the banker's imperative duty to stand as an impartial arbitrator between the two, striving to be just to each.

The capitalist employing labor, who does not concede to wage earners their rights, and fairly treat them, is a pirate on the sea of commerce, whose craft is sure to be wrecked in the fury of

the storm Eternal Justice is brewing for the punishment of him and his kind.

Gigantic fortunes, made up of unholy gains, that represent losses forced by the stronger upon the weaker, the tears and anguish of poverty, are an insult to God, and a curse to the possessor.

A man whose idolatry for gold has made the eyes of his conscience blind, and frozen every generous impulse of his nature, so that his moral sense lies only in the might that money gives, need not flatter himself that, because judgment for unjust and cruel deeds is delayed, there is no punishment. The attempt of such a man to win the approbation of just men, and to make peace with the Infinite, by making liberal contributions to churches, or endowing schools or charities, is as useless as for the leopard to try to change his spots, or for the slimy serpent to attempt to invest himself with the wings of the eagle. The unthinking public may applaud the parade of his virtues and generosities (so-called?) and sycophants dance attendance upon the elegance of his entertainments, but the inexorable settlement day will come when the penalty must be paid. Justice is a law inherent in creation. Its edicts may be slow in execution, but they are as sure and resistless as death.

The foregoing in no way applies to noble, public-spirited citizens, who, through magnificent ability, exhaustless energy and wise economy, have accumulated fortunes that make generosity possible, and whose benefactions bless the world and crown their own lives with immortal memories.

And further, that the same law which governs morals governs business; whether we stand or fall depends upon ourselves. If we stand, it must be in the rectitude of our own lives and the prudence of our own management. We may use all the faculties we possess and all the experience we have gained, yet we shall make mistakes. A mistake does not imply a disaster, if the qualities of manhood are so stalwart as to demand another trial, and we are courageous enough to acknowledge past errors, and wise enough to profit by experience.

The grandest triumphs always crown the severest struggles. The consciousness of being right gives courage, strength and irresistible power. Right always ultimately triumphs, and there is no kingdom so rich, no crown so bright, no inheritance so grand as spotless integrity. The banker who has proven worthy of his trust

has won that self-respect born of purity of life and honesty of purpose. The merited respect of our fellows becomes a matchless diadem when the shadows of old age fall upon us. An honorable old age is clothed with the memory of the highest success a man ever achieved—hence the twilight hours of a truly successful life become an abiding consciousness of manhood's meridian grandeur. Nowhere are opportunities for being just, fair and helpful more abundant than in a banker's career. The memory of a good act never dies; it is a benediction upon the past, a joy in the present and an inspiration for the future, and will cast a sweet halo over the grave of the departed.

PRESS OF
S. D. CHILDS & CO.
CHICAGO.